

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Wednesday, November 14, 2007

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

1 PARTICIPANTS:

2 Board Members

3 RONALD A. ROSENFELD, Chairman

4 BRIAN MONTGOMERY, Director

5 GEOFFREY BACINO, Director

6 ALICIA R. CASTANEDA, Director

7 ALLAN I. MENDELOWITZ, Director

8 SHELIA WILLIS, Secretary

9 Also Present

10 STEPHEN CROSS

11 NEIL CROWLEY

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1 P R O C E E D I N G S

2 (10:00 a.m.)

3 CHAIRMAN ROSENFELD:

4 Good morning everyone. I call this meeting
5 of the Board of Directors of the Federal Housing
6 Finance Board to order. Today we will have an open
7 session followed immediately by a closed session
8 where the Board will receive updates for
9 examination of supervisory findings. We now need to
10 vote to approve closing the latter portion of
11 today's meeting as required by the Sunshine Act and
12 Finance Board regulations. And since the closed portion
13 of today's meeting will contain and sensitive and
14 confidential bank examination information, I would
15 ask for a vote to seal the transcript of this portion
16 of the meeting.

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1 DIRECTOR MENDELOWITZ: Mister Chairman,
2 I move to close the portion of today's meeting at which
3 we will receive updates and examination and supervisory
4 findings. And further, determine that the record
5 and transcript of this closed portion of the
6 meeting be kept confidential.

7 CHAIRMAN ROSENFELD: Thank you, Director
8 Mendelowitz. Is there any discussion on the
9 motion? Any discussion? Do I have a second?

10 DIRECTOR CASTANEDA: Second.

11 CHAIRMAN ROSENFELD: Thank you, Director
12 Castaneda. Secretary, please call the roll.

13 MS. WILLIS: On the item before the
14 Board, Director Bacino, how do you vote?

15 DIRECTOR BACINO: Yes.

16 MS. WILLIS: Director Castaneda?

17 DIRECTOR CASTANEDA: Yes.

18 MS. WILLIS: Director Mendelowitz?

19 DIRECTOR MENDELOWITZ: Yes.

20 MS. WILLIS: Chairman Rosenfeld?

21 CHAIRMAN ROSENFELD: Yes. The motion is
22 carried and the subsequent portion of our meeting

1 will be closed and this transcript will remain
2 closed and confidential. Thank you.

3 Now let us turn to the public portion of
4 today's meeting. We will be considering the
5 Federal Housing Finance Board's Annual Performance
6 Budget for Fiscal Year 2008. How will be making
7 the staff's presentation? Dan?

8 MR. COATES: I will. Good morning,
9 Mister Chairman, and members of the Board. Each
10 year the Government Performance and Results Act,
11 or GPRA, requires federal agencies to prepare an
12 annual performance budget as one of three main
13 reports required by GPRA establishing a continuous
14 cycle of program management and performance
15 centered on outcomes. The Finance Board's Fiscal
16 year 2008 Annual Performance Budget is being
17 presented today for your approval.

18 In September of 2006 you adopted the
19 Finance Board's strategic plan which covers the
20 years 2007 through 2012. The strategic plan
21 establishes two strategic goals for the Finance
22 Board. The first is that the Federal Home Loan

1 Banks operate safely and soundly. Strategic
2 outcomes consistent with that goal are that the
3 Federal Home Loan Banks effectively identify and
4 manage risk and remain adequately capitalized and
5 able to raise funds in the capital markets.

6 The second strategic goal is that the
7 Federal Home Loan Banks' affordable housing and
8 community investment programs operate effectively
9 and efficiently. The strategic outcome that is
10 consistent with that goal is that the Federal Home
11 Loan Banks foster the development of affordable
12 owner-occupied and rental housing for eligible
13 very low, low, and moderate-income households.
14 The annual performance budget sets forth annual
15 performance goals and measures designed to
16 indicate progress made by the Finance Board and
17 the Federal Home Loan Banks in achieving the
18 strategic goals and outcomes. The performance
19 goals concern the Federal Home Loan Banks'
20 responsiveness in correcting deficiencies
21 identified by the Finance Board, the compliance of
22 the Federal Home Loan Bank' financial statements

1 with applicable laws and regulations, and the
2 distribution of Affordable Housing Program funds
3 as approved in the AHP applications. The annual
4 performance measures are designed to ensure that
5 the Finance Board is carrying out its statutory
6 duties principally through substantive and timely
7 examinations and regular follow-up with the
8 Federal Home Loan Banks and the Office of Finance
9 regarding examination findings. The relationship
10 between strategic goals and outcomes and annual
11 performance goals and measures is depicted on page
12 9 of the Annual Performance Budget. The Annual
13 Performance Budget also indicates the allocation
14 of the Finance Board's budgeted resources between
15 the two strategic goals. For fiscal year 2008,
16 approximately 80 percent of the Finance Board's
17 resources are allocated to the first strategic
18 goal which is that the Federal Home Loan Banks
19 operate safely and soundly. The remaining 20
20 percent of the agency's resources are allocated to
21 the second strategic goal which is that the
22 Affordable Housing and Community Investment

1 Programs of the Federal Home Loan Banks operate
2 effectively and efficiently.

3 In fiscal year 2008, the Finance Board
4 will concentrate its resources in the following
5 major areas: ongoing risk-focused supervision
6 through our Safety and Soundness and Affordable
7 Housing Examination Programs, involvement of
8 economists, accountants, and financial analysts on
9 examinations, enhancements to information systems
10 to promote more effective offsite monitoring and
11 analysis, preparation of periodic economic and
12 financial reports on the Federal Home Loan Banks
13 and the System, review of Finance Board policies
14 and regulations including, for example, the
15 Financial Management Policy, or FMP, and risk-
16 based capital regulations, enhanced quality
17 improvement and quality assurance processes, the
18 preparation of timely and substantive reports of
19 examination, and refinements to our Safety and
20 Soundness and Affordable Housing Supervisor
21 Program and Supervisory Guidance.

22 Mister Chairman and members of the

1 Board, I would be happy to respond to your
2 comments and questions.

3 CHAIRMAN ROSENFELD: Are there any
4 comments or questions?

5 DIRECTOR BACINO: Just one. I met for a
6 briefing on this and I appreciate that. At that
7 time I just made a couple suggestions and I know
8 that we had talked about perhaps implementing them
9 as we go forward.

10 MR. COATES: I look forward to working
11 with you and other members of the Board in any way
12 that you see fit. We're always looking for ways
13 to continuously improve our measures.

14 CHAIRMAN ROSENFELD: Director
15 Mendelowitz?

16 DIRECTOR MENDELOWITZ: I'd like to get
17 educated a little bit about the current status of
18 GPRA. When the legislation was passed it
19 represented I think a very worthy objective which
20 was to focus government resources, meaning dollars
21 and staff, on our outcomes rather than inputs.
22 For example, when you look at how national income

1 product account numbers get totaled up everything that
2 takes place in the private sector or most of what takes
3 place in the private sector is measured at market prices
4 and market quantities so you basically have an
5 arm's length measure of what it's worth.
6 Government is the exception because it gets
7 measured by inputs, how much we spend on workers,
8 how much we spend on buying things, we don't in
9 the budget process or in the national account
10 we don't focus on what government actually
11 produces. We measure how many dollars we spend on
12 health care, but it doesn't measure what the
13 improvement in the nation's health is which is the
14 desired outcome.

15 When I looked at this plan it seems to
16 focus on inputs rather than outputs. Has there
17 been some change as to how GPRA is interpreted?

18 MR. COATES: I don't think so. I think
19 that these annual performance measures are the
20 output of the Finance Board. They are the direct
21 measure of our output as we try to ensure that the
22 Federal Home Loan Banks are operated, safely,

1 soundly, and that the Affordable Housing Programs
2 and Community Investment Programs are operated
3 efficiently and effectively.

4 I would point you to the Annual
5 Performance Goals which are in fact output-
6 oriented measures. When you look at the Annual
7 Performance Goals which are, after all, jointly
8 determined, the success - the meaning of these Annual
9 Performance Goals is a function not only of the Finance
10 Board's outputs, but also of the Federal Home Loan
11 Banks' outputs. So I think that we have in fact an
12 output-oriented set of measures. By the nature of our
13 business, however, our actions combined with the actions
14 of the Home Loan Banks determine the ultimate outcome
15 which is the health, safety, and soundness and housing
16 mission achievement of the Home Loan Banks.

17 So what we can do, what our Annual
18 Performance Measures are designed to do, is
19 measure the output of the Finance Board
20 independently of the output of the Home
21 Loan Banks which after all we have only limited
22 control over. So I think these are actually

1 output measures and I think they hold us to a
2 measure of accountability that I think stands us
3 in good stead.

4 DIRECTOR MENDELOWITZ: The GPRA process
5 has several different components. One is the
6 strategic plan which is prepared every several
7 years, and then there's the Annual Performance
8 Plan which is prepared every year and it's
9 supposed to lay out achievable objectives toward
10 realizing the strategic goals. Why don't we come
11 up with another strategic plan for this coming
12 year?

13 MR. COATES: The strategic plan was
14 issued in September 2006 by this Board. We're
15 typically on a 3-year revolving cycle for revising
16 that. Again, it is at the discretion of this Board
17 to revise it as it sees appropriate.

18 DIRECTOR MENDELOWITZ: If we were to
19 redo the plan in the coming year, do you think
20 there are things that we should consider putting
21 into the strategic plan that aren't in there now
22 that would guide future annual plans?

1 MR. COATES: Director Mendelowitz,
2 that's really an issue for the Board to discuss.

3 DIRECTOR MENDELOWITZ: You've spent a
4 lot of time working on the plan and you presented
5 it and we rely a lot on staff recommendations and
6 expertise, and so I'm just saying given all the
7 time that you put into preparing this plan, I'm
8 sure you've given some thoughts to what we should
9 be thinking about in the coming year as we think
10 about revising the strategic plan and I'm just
11 wondering if you had any ideas and thoughts on
12 that.

13 MR. COATES: I do have ideas and
14 thoughts. Again, though if you read the current
15 plan, there's a lot of substance in there. If you
16 look at the mission, for example, stated in last
17 year's strategic plan, the Finance Board's
18 mission, this is not a strategic goal, it is a
19 central focus of the agency as stated in the plan,
20 and it says, "The mission is to ensure that the
21 Home Loan Banks are safe and sound so they
22 serve as a reliable source of liquidity and

1 funding for the nation's housing and financing
2 community and investment needs." So I think that
3 that captures a lot. Even if it's not in a
4 strategic goal, the Home Loan Banks' role
5 in times of market distress is covered right there
6 by the mission of the agency.

7 DIRECTOR MENDELOWITZ: Right, but how
8 does that carry over to the strategic goal? Do
9 you think the existence of the strategic goals are
10 sufficient? Do they need to be tweaked? Do they
11 needed to be improved? Do they need to be added
12 to?

13 MR. COATES: I think that, first of all,
14 it's not my place to tell this Board what the
15 goals should be. The decision of what the goals
16 should be is a Board-level discussion. I will
17 support the Board in whatever they decide to
18 pursue. But I think if you look at the goals we
19 have, that the banks are safe and sound and that
20 they carry out their affordable housing and
21 community investment mission, they cover a lot of
22 -- not everything, but it covers the mission

1 statement of the strategic plan.

2 DIRECTOR MENDELOWITZ: There's mission,
3 then there's strategic goals, and there's annual
4 performance goals, and things all away as you move
5 from the mission statement that pretty well
6 captures what we try to do and, for example, we
7 talk about AHP but we don't talk in the plan about
8 the housing finance mission beyond that. That's a
9 very narrow interpretation of the housing finance
10 mission. The AHP program is a great program, but
11 there is more to the housing finance mission in
12 the Home Loan Banks than just AHP. So I was
13 curious how could we add something to the plan
14 that would in fact focus on mission? Do we have
15 the right balance in safety and soundness and the
16 ways in which we should talking now?

17 MR. CROSS: I think that there are two
18 broad areas that if the Board wished to pursue
19 would be open for reasonable discussion. One
20 would be on trying to incorporate into strategic
21 goals some measure of mission achievement. I
22 would not say that this intends for the Affordable

1 Housing Program to be a proxy achievement, it's
2 simply reflective of the focus of our efforts over
3 the past 5 or 6 years to enhance our safety and
4 soundness examination program and our Affordable
5 Housing Program. I think it is perfectly
6 reasonable for the Board to consider and to ask
7 staff to pursue ways of getting at the notion of
8 the housing finance mission which is listed as the
9 principal duty in the Act. That's one area where
10 we clearly could vet some ideas and determine
11 whether the Board wished to add to the strategic
12 goals.

13 The second area is one that we actually
14 previously had in some form in the strategic plan
15 and took out as more of an administrative matter
16 and that's the area of effective, efficient
17 delivery of services. I'm not saying its right
18 or wrong, I'm saying what we presented to the board
19 last year in the strategic plan was purposely a
20 strategic plan that was in my view very
21 straightforward and focused on what we were in
22 fact spending the bulk of our time undertaking

1 which is strengthening our safety and soundness
2 program and strengthening our Affordable Housing
3 Examination Program. I believe, self-serving as
4 it may seem, that that was the right decision for
5 the Board to make in 2006.

6 As we continue to grow and evolve as an
7 agency, you may want to have a more expansive
8 strategic plan. And Dan and I following
9 discussions with you and with Director Bacino and
10 other Board Members have had these discussions,
11 but I just want to emphasize the point that Dan
12 was making which is that I would be very happy to
13 have those discussions, I think it would be
14 premature for either Dan or for me to offer a
15 specific statement of what we think an additional
16 goal might or might not be.

17 DIRECTOR MENDELOWITZ: I appreciate
18 that. I realize that some people view this whole
19 process as a paper process and there's a statute
20 here and we have to comply with the statute. If
21 you'll indulge me for adding to the length of this
22 meeting for a few minutes, but I've always been a

1 big fan of the objective of GPRA. It goes back to
2 what I learned in sixth-grade or seventh-grade
3 science which was if you stand and push on a
4 bolder all way, at the end of the day, no matter
5 how tired you are, no matter how sweaty or dirty
6 you are, if the bolder hasn't moved, you haven't
7 done any work. So I really do appreciate and
8 value the focus and emphasis of GPRA on outcomes
9 rather than inputs. The fact that we have to
10 renew the annual plan is an opportunity to step
11 back thinking about it and focus on it. The
12 reason why I again took a few minutes of
13 everyone's time and imposed on everyone is that I
14 couldn't help but think about the events of the
15 past summer, basically, the credit market seized
16 up. The Home Loan Banks did a spectacular job on
17 meeting their obligations on liquidity to the
18 banking system, but we are now in the midst of a
19 crisis where everyone is thinking expansively and
20 flailing around trying to find ways not to bail out
21 banks and not to bail out speculators, but to try
22 to help American families who number now in the

1 millions who are at risk of losing their homes.

2 So the reason I asked about whether we
3 could do more on mission is that I think that the
4 banks and we as the regulator of the banks with
5 the statutory requirement to ensure the housing
6 finance mission also should be thinking about what
7 more we can contribute to the resolution of the
8 problem. Thank you. I really appreciate all the
9 work you've put into it. I appreciate your time
10 and the sharing of ideas.

11 CHAIRMAN ROSENFELD: Is there any other
12 comment or discussion? If there's nothing else, I
13 will accept a motion to approve the Finance
14 Board's Annual Performance Budget.

15 DIRECTOR BACINO: So moved.

16 CHAIRMAN ROSENFELD: Is there any
17 second?

18 DIRECTOR CASTANEDA: Second.

19 CHAIRMAN ROSENFELD: Thank you, Director
20 Castaneda. Will the secretary please call the
21 roll?

22 MS. WILLIS: On the item before the

1 Board, Director Bacino, how do you vote?

2 DIRECTOR BACINO: Yes.

3 MS. WILLIS: Director Castaneda?

4 DIRECTOR CASTANEDA: Yes.

5 MS. WILLIS: Director Mendelowitz?

6 DIRECTOR MENDELOWITZ: Yes.

7 MS. WILLIS: Chairman Rosenfeld?

8 CHAIRMAN ROSENFELD: Yes. The motion is

9 adopted. This ends the Open Session of the

10 meeting. We will convene in Closed Session in 3

11 minutes.

12 (Whereupon, at 10:18 a.m., the

13 PROCEEDINGS were adjourned.)

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